98TH CONGRESS
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HOUSE OF REPRESENTATIVES
REPORT
No. 98-252

TAX RATE EQUITY ACT OF 1983

JUNE 21, 1983.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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Mr. ROSTENKOWSKI, from the Committee on Ways and Means, submitted the following

REPORT

together with

DISSENTING VIEWS

[To accompany H.R. 1183]

[Including cost estimate of the Congressional Budget Office]

The Committee on Ways and Means, to whom was referred the bill (H.R. 1183) to amend the Internal Revenue Code of 1954 to limit to $700 the maximum reduction in individual income tax resulting from third year of the rate cuts enacted by the Economic Recovery Tax Act of 1981, having considered the same, report favorably thereon with amendments and recommend that the bill, as amended, do pass.

The amendments (stated in terms of the page and line numbers of the introduced bill) are as follows:

On the first page, after line 5, insert the following:

SEC. 2. REVENUE GAINED FROM CAP TO BE USED TO REDUCE FEDERAL DEFICITS.

Whereas projected Federal deficits threaten to abort economic recovery for all Americans, and

Whereas the need to reduce these deficits is one of the paramount issues facing this Congress:

It is the sense of the Congress that—

(1) the revenue gained from a cap on the third year of the individual tax rate cut be applied to a reduction in Federal deficits, and

(2) the Budget Committees apply the revenue gained from such cap to reduce deficit projections.

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Page 2, line 1, strike out "SEC. 2." and insert in lieu thereof "SEC. 3.".

Page 2, in the table immediately following line 8, strike out "$20,286" and insert in lieu thereof "$28,286".

Page 3, strike out line 1 and all that follows down through the end of the table preceding line 1 on page 4 and insert in lieu thereof the following:

(b) HEAD OF HOUSEHOLD.—Paragraphs (2) and (3) of section 1(b) of such Code (relating to heads of households) are amended to read as follows:

"(2) FOR TAXABLE YEARS BEGINNING IN 1983.—

"If taxable income is:	The tax is:
Not over $2,300	No tax.
Over $2,300 but not over $4,400	11% of excess over $2,300.
Over $4,400 but not over $6,500	$231, plus 13% of excess over $4,400.
Over $6,500 but not over $8,700	$504, plus 15% of excess over $6,500.
Over $8,700 but not over $11,800	$834, plus 18% of excess over $8,700.
Over $11,800 but not over $15,000	$1,392, plus 19% of excess over $11,800.
Over $15,000 but not over $18,200	$2,000, plus 21% of excess over $15,000.
Over $18,200 but not over $23,500	$2,672, plus 25% of excess over $18,200.
Over $23,500 but not over $28,800	$3,997, plus 29% of excess over $23,500.
Over $28,800 but not over $30,000	$5,534, plus 34% of excess over $28,800.
Over $30,000 but not over $34,100	$5,942, plus 36% of excess over $30,000.
Over $34,100 but not over $44,700	$7,418, plus 39% of excess over $34,100.
Over $44,700 but not over $60,000	$11,552, plus 46% of excess over $44,700.
Over $60,600	$18,866, plus 50% of excess over $60,600.

"(3) FOR TAXABLE YEARS BEGINNING AFTER 1983.—

"If taxable income is:	The tax is:
Not over $2,300	No tax.
Over $2,300 but not over $4,400	11% of excess over $2,300.
Over $4,400 but not over $6,500	$231, plus 12% of excess over $4,400.
Over $6,500 but not over $8,700	$483, plus 14% of excess over $6,500.
Over $8,700 but not over $11,800	$791, plus 17% of excess over $8,700.
Over $11,800 but not over $15,000	$1,318, plus 18% of excess over $11,800.
Over $15,000 but not over $18,200	$1,894, plus 20% of excess over $15,000.
Over $18,200 but not over $23,500	$2,534, plus 24% of excess over $18,200.
Over $23,500 but not over $28,800	$3,806, plus 28% of excess over $23,500.
Over $28,800 but not over $30,000	$5,290, plus 32% of excess over $28,800.
Over $30,000 but not over $34,100	$5,674, plus 36% of excess over $30,000.
Over $34,100 but not over $44,700	$7,150 plus 39% of excess over $34,100.
Over $44,700 but not over $60,600	$11,284, plus 46% of excess over $44,700.
Over $60,600	$18,598, plus 50% of excess over $60,600."

Page 5, in the table immediately following line 2, strike out "$10,627" and insert in lieu thereof "$10,827".

Page 5, in the table immediately following line 8—

(1) strike out "$2,700" and insert in lieu thereof "$2,750", and

(2) strike out "$10,100" in the portion of the table setting forth the tax for taxable income over $12,300 but not over $14,950 and insert in lieu thereof "$12,300".

Page 7, in the table immediately preceding line 1, strike out "$8,000" and insert in lieu thereof "$8,400".

Page 7, in the table immediately following line 2, strike out "$8,000" and insert in lieu thereof "$8,400".

Page 8, line 3, strike out "section 2" and insert in lieu thereof "section 3".

Page 8, beginning in line 14, strike out "section 2" and insert in lieu thereof "section 3".

Page 8, after line 23, insert the following:

(3) ESTIMATED TAX.—No addition to the tax shall be made under section 6654 of the Internal Revenue Code of 1954 (relating to failure by individual to pay estimated income tax) with respect to any underpayment for a taxable year beginning during 1983 to the extent such underpayment was created or increased by the amendments made by this section.

I. SUMMARY

Under present law, individual income tax rates applicable in 1984 are approximately 23 percent lower than those applicable in 1981 and prior years. This overall reduction is the result of reductions phased in annually over the three years 1982 through 1984 by the Economic Recovery Tax Act of 1981 (ERTA). ERTA also provided for corresponding reductions in withholding rates on October 1, 1981, July 1, 1982, and July 1, 1983.

The bill limits to approximately $700 for 1984 the maximum reduction in individual income tax resulting from the last stage of the ERTA rate reductions by modifying the rate schedules for calendar year 1983 and subsequent years. The modifications leave intact present law marginal tax rates for incomes below the level at which the limit applies.

The bill expresses the sense of the Congress that the revenue gained as a result of the bill should be applied to reduce Federal deficits and deficit projections.

The bill also includes coordinating provisions relating to withholding and to the penalty for underpayment of estimated tax in 1983.

II. EXPLANATION OF THE BILL

Present Law

Under present law, the individual income tax rates applicable to 1984 incomes will be approximately 23 percent lower than the rates applicable in 1981 and prior years. The 1984 tax rate schedules reflect the last stage of the phased-in rate reduction enacted by the Economic Recovery Tax Act of 1981 (ERTA); the rate schedules for 1982 and 1983 incorporated reductions averaging 10 percent and 19 percent, respectively, below the prior law rate schedules. ERTA also provided for a maximum tax rate of 50 percent, so that any marginal rate that would have been above 50 percent after the 10-, 19-, or 23-percent across-the-board reduction was further reduced to 50 percent.

ERTA made staggered reductions in income tax withholding rates on October 1, 1981, July 1, 1982, and July 1, 1983, corresponding to the tax rate reductions. The withholding reductions were coordinated with the tax rate reductions so that, on the average, the two different withholding schedules in effect during the first and second halves of each of the years 1982 and 1983 provided annual withholding reductions approximately equal to the annual tax reductions provided by the tax rate schedule for the corresponding year. The October 1981 withholding reduction was approximately 5 percent, lowering withholding rates to 95 percent of their prior level. In July 1982, the already reduced withholding rates were cut another 10 percent, to 90 percent of the October 1981 level. Thus, the July 1982 withholding rates were about 85.5 percent ($.95 \times .90$) of the prior law level, a cumulative 14.5-percent reduction. For the year 1982, therefore, withholding was 5 percent below the prior law level in the first half of the year and 14.5 percent below in the second half of the year, for an average reduction of about 10 percent, corresponding to the reduction in income tax rates applicable to 1982 income. The July 1983 withholding rates, 10 percent below the July 1982 rates, are 23 percent below those effective under prior law, corresponding to the fully phased-in tax rate reduction in effect in 1984.

Finally, under present law, individuals are required to pay estimated taxes under certain circumstances. An individual who fails to pay in full an installment of estimated tax on or before the due date can be subject to civil penalties.[1] The estimated tax penalty is computed using the interest rate established under Code section 6621 for the period of underpayment.

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[1] To determine whether an underpayment has occurred for penalty purposes, the excess of 80 percent of the total tax liability for the year over the amount of estimated tax or withholding actually paid is used. Estimated taxes are generally to be paid in four installments during the year. Various exceptions apply to these rules.

Reasons for Change

The paramount problem of fiscal policy facing the United States in the years ahead is the imbalance between projected revenues and projected expenditures. Record budget deficits are in prospect if current policy is not modified. Earlier this year, the Congressional Budget Office projected "current policy" deficits of $197 billion in 1984, $214 billion in 1985 and $231 billion in 1986. A broad consensus has developed that a reduction in projected deficits is necessary to prevent a rise in interest rates and a premature termination of the economic recovery. Both the House of Representatives and the Senate have passed budget resolutions calling for substantial increases in revenues beginning in fiscal year 1984 (H. Con. Res. 91). The Administration has proposed a sizable contingent tax increase, starting in 1985.

This bill takes the first step toward raising the revenues necessary to stem the huge deficits projected under current policy. In view of the broad agreement that additional revenues are necessary, the committee believes that it is prudent to provide for increased revenues by first examining the tax law with a view toward modifying tax reductions which have been enacted in prior years but which have not yet gone into effect. This is considerably less disruptive than changing provisions of the law to which taxpayers have already become accustomed.

The bill modifies one of the enacted tax reductions which has not yet gone into effect—the July 1983 rate reduction contained in the Economic Recovery Tax Act of 1981 (ERTA). The modifications, which place a limit of approximately $700 on the benefit which any taxpayer can obtain from this reduction, are designed to affect only 10.4 percent of taxpayers. The affected taxpayers are generally those with above-average incomes. The committee concluded that it was appropriate to limit the tax reduction for this small group of taxpayers because they had received substantial tax reductions, relative to taxpayers in other income groups, from the provisions of ERTA which have already been in effect.

Table 1 shows data which the committee used for examining the income class distribution of the tax changes enacted during the last few years. The first columns of that table show the 1984 effects of tax increases from "bracket creep" and changes in social security taxes which had already been in the law prior to ERTA. The first three columns correspond to three different possible dates for beginning the measurement of these increases—January 1980, January 1981, and October 1981. Thus, in order to determine the net tax change which has taken place since these dates, the first, second, or third column of the table can be added to the fourth column.

The first three columns of Table 2 show the results of this addition. Thus, for example, the second column of Table 2 shows that, since 1980, tax legislation, net of bracket creep and social security increases, has resulted in a net tax reduction for all income classes except the lowest two. The figure in parentheses is the net tax reduction as a percentage of what tax liability would remain for each group after the inflation and social security increases have been exactly offset. The figures show that the size of the net tax reduction resulting from recent tax legislation increases substantially as

income rises. This conclusion is unchanged when the other starting dates are used. Thus, it appear fair and appropriate that the upper income groups bear the brunt of any revenue increases which are made necessary by the current budget situation.

The last three columns of Table 2 show the net tax reductions which exist under the bill. Whatever the starting date used to analyze inflation and social security tax increases, the bill provides a much more even pattern of net tax change than does present law.

TABLE 1.—AGGREGATE CHANGE IN TAX LIABILITY, BY INCOME CLASS, FROM MAJOR PROVISIONS OF ERTA AND TEFRA COMPARED TO CHANGES DUE TO INFLATION AND SOCIAL SECURITY LEGISLATION. CHANGES MEASURED FOR TAX YEAR 1984

[1982 income levels, millions of dollars]

Expanded income class (thousands)[1]	Combined inflation increases [2] and changes in social security taxes [3] (prior to 1983 legislation)			Legislated income tax changes (ERTA and TEFRA)[4]
	After 1979	After 1980	After Sept. 30, 1981	
Under $10	$5,184	$3,853	$1,735	−$1,952
$10 to $20	14,137	10,016	4,638	−9,541
$20 to $30	17,066	12,268	5,834	−14,769
$30 to $40	15,708	11,260	5,411	−14,494
$40 to $50	10,584	7,583	3,769	−9,966
$50 to $75	10,836	7,537	3,727	−10,511
$75 to $100	3,719	2,510	1,248	−4,028
$100 to $200	4,311	2,843	1,416	−5,947
$200 and over	1,728	1,115	552	−5,696
Total	83,274	58,985	28,328	−76,903

[1] Expanded income is equal to adjusted gross income plus excluded capital gains and other tax preference items less investment interest paid to the extent of investment income.

[2] Revenue gain from not adjusting personal exemption, zero bracket amount, and rate brackets by 46.0, 28.6, or 14.7 percent. These adjustments correspond to actual and forecasted rates of CPI–U inflation measured concurrently over periods beginning with the date shown and ending with 1984. Revenue gain evaluated against 1979 tax schedules.

[3] Additional employee and self-employed payroll tax from (1) ad hoc increases in the wage base above what would have occurred under indexing (equivalent in 1982 to $3,300 for the two increases that occurred after 1979 and to $1,300 for the single increase that occurred after 1980), (2) increases in rates for employees from 6.13 percent to 6.65 percent in 1981 and to 6.7 percent in 1982, and (3) increases in rates for the self-employed from 8.1 to 9.3 percent in 1981 and to 9.35 percent in 1982. Does not include expanding HI coverage to Federal employees or effects of 1983 social security legislation.

[4] This column shows the combined effects of certain provisions of ERTA and TEFRA (the Tax Equity and Fiscal Responsiblity Act of 1982). ERTA provisions in the distribution include: the two-earner deduction, full 3-year rate changes covering both regular and alternative minimum tax rates, charitable deduction for nonitemizers, and modifications to the child care credit. TERFA provisions in the distribution include: conversion to a new minimum tax, limitation on both medical expense and casualty loss deductions, and expanded taxation of unemployment compensation.

TABLE 2.—AGGREGATE TAX CHANGES FOR 1984, BY INCOME CLASS, NET OF TAX INCREASES FROM INFLATION AND SOCIAL SECURITY, UNDER PRESENT LAW AND UNDER THE BILL[1]

[1982 income levels, dollars in millions]

Expanded Income Class (thousands)	Present law						Under the bill					
	After 1979		After 1980		After Sept. 30, 1981		After 1979		After 1980		After Sept. 30, 1981	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Below $10..	$3,232	30	$1,901	16	−$217	−2	$3,232	30	$1,901	16	−$217	−2
$10 to $20..	4,596	10	475	1	−4,903	−9	4,596	10	475	1	−4,903	−9
$20 to $30..	2,297	3	−2,501	−4	−8,935	−12	2,316	4	−2,482	−4	−8,916	−12
$30 to $40..	1,214	2	−3,234	−5	−9,083	−13	1,318	2	−3,130	−5	−8,979	−13
$40 to $50..	618	2	−2,383	−6	−6,197	−14	1,096	3	−1,905	−5	−5,719	−13
$50 to $75..	325	−1	−2,974	−7	−6,784	−15	1,872	5	−1,427	−3	−5,237	−12
$75 to $100.....	−309	−2	−1,518	−9	−2,780	−16	604	4	−605	−4	−1,867	−11
$100 to $200.....	−1,636	−6	−3,104	−11	−4,531	−16	−35	0	−1,503	−6	−2,930	−10
$200 and over	−3,968	−13	−4,581	−15	−5,144	−17	−3,332	−11	−3,945	−13	−4,508	−15
Total...	6,371	2	−17,918	−6	−48,575	−16	11,668	5	−12,621	−5	−43,278	−14

[1] These figures are the effects of the legislated tax changes shown in the last column of table 1 minus the figures in one of the corresponding first three columns of that table. The amounts do not include the effects of the 1983 social security legislation. Figure in the column labelled "percent" is this change as a percentage of net tax liability (tax liability net of inflation and social security increases occurring after the date shown).

Table 3 (divided into 3A, 3B, and 3C) presents additional statistical information which makes clear that the bill generally affects higher income taxpayers. The last column of Table 3A shows that, for example, only 10.4 percent of taxable returns are affected by the bill. Only a small percentage of returns in the income groups below $40,000 are affected. The last column of Table 3B, which shows the percentage distribution of revenue increase caused by the bill, shows that only 11.3 percent of the increased revenue comes from income groups below $50,000. Table 3C shows that the average tax change for affected returns and the percentage increase in tax liability is relatively small for the lower income classes.

Table 3A.—Distributional Effects of the Bill Compared With 1984 Present Law by Filing Status—Returns With Tax Change

[1982 Income Levels, number of returns in thousands]

Expanded income class [1] (thousands)	Joint—Two-earner			Joint—Other			Single and head of household			Total [2]		
	Number of returns with tax change		Percent of taxable returns	Number of returns with tax change		Percent of taxable returns	Number of returns with tax change		Percent of taxable returns	Number of returns with tax change		Percent of taxable returns
	Number	Percentage distribution		Number	Percentage distribution		Number	Percentage distribution		Number	Percentage distribution	
Under $10										12	0.1	([3])
$10 to $20							3	0.2	0.1	141	1.7	0.8
$20 to $30							620	45.8	52.2	904	11.2	9.2
$30 to $40	150	3.8	2.6	102	3.9	3.5	333	24.6	81.8	2,610	32.3	58.1
$40 to $50	1,485	37.9	54.3	786	30.0	58.4	257	19.0	90.8	2,880	35.6	90.7
$50 to $75	1,563	39.9	92.2	1,054	40.3	88.6	66	4.9	85.7	711	8.8	93.2
$75 to $100	335	8.6	94.4	307	11.7	93.3	57	4.2	81.4	643	8.0	89.6
$100 to $200	299	7.6	93.1	287	11.0	88.0	19	1.4	70.4	184	2.3	81.1
$200 and over	86	2.2	85.1	79	3.0	80.6						
Total	3,917	100.0	17.4	2,616	100.0	13.6	1,354	100.0	3.9	8,085	100.0	10.4

[1] Expanded income equals adjusted gross income plus excluded capital gains and various other tax preference items less investment interest to the extent of investment income.

[2] Total includes married filing separate returns that are not listed elsewhere.

[3] Less than 0.1 percent.

TABLE 3B.—DISTRIBUTIONAL EFFECTS OF THE BILL COMPARED WITH 1984 PRESENT LAW BY FILING STATUS—AMOUNT OF TAX CHANGE

[1982 Income Levels, dollar aggregates in millions]

Expanded income class [1] (thousands)	Joint—Two earners		Joint—Other		Single and head of household		Total [2]	
	Amount of tax change	Percentage distribution	Amount of tax change	Percentage distribution	Amount of tax change	Percentage distribution	Amount of tax change	Percentage distribution
Under $10								
$10 to $20								
$20 to $30							$19	0.4
$30 to $40	$6	0.2	$5	0.2	$77	12.2	100	1.9
$40 to $50	231	9.2	123	5.9	118	18.8	475	9.0
$50 to $75	780	31.0	553	26.4	205	32.6	1,544	29.2
$75 to $100	422	16.8	397	19.0	89	14.1	912	17.2
$100 to $200	764	30.3	732	35.0	103	16.4	1,600	30.3
$200 and over	314	12.5	284	13.6	36	5.7	635	12.0
Total	2,518	100.0	2,093	100.0	629	100.0	5,287	100.0

[1] Expanded income equals adjusted gross income plus excluded capital gains and various other tax preference items less investment interest to the extent of investment income.

[2] Total includes married filing separate returns that are not listed elsewhere.

TABLE 3C.—DISTRIBUTIONAL EFFECTS OF THE BILL COMPARED WITH 1984 PRESENT LAW BY FILING STATUS—AVERAGE AND PERCENTAGE TAX CHANGE

[1982 income levels]

Expanded income class [1] (thousands)	Joint—Two earner		Joint—Other		Single and head of household		Total [2]	
	Average tax change for returns affected	Percent tax change [3]	Average tax change for returns affected	Percent tax change [3]	Average tax change for returns affected	Percent tax change [3]	Average tax change for returns affected	Percent tax change [3]
Under $10								
$10 to $20							$31	(4)
$20 to $30					$4	(4)	135	(4)
$30 to $40	$43	(4)	$45	(4)	125	1.2	111	0.2
$40 to $50	156	1.3	156	1.5	357	3.8	182	1.6
$50 to $75	499	4.7	525	4.8	796	6.3	536	4.9
$75 to $100	1,260	7.1	1,292	7.2	1,356	6.4	1,284	7.1
$100 to $200	2,555	7.6	2,550	7.4	1,819	4.3	2,487	7.2
$200 and over	3,655	2.9	3,611	2.7	1,887	0.9	3,448	2.5
Total	643	2.4	800	2.8	464	1.0	654	2.2

[1] Expanded income equals adjusted gross income plus excluded capital gains and various other tax preference items less investment interest to the extent of investment income.

[2] Total includes married filing separate returns that are not listed elsewhere.

[3] Tax change as a percentage of total positive tax liability within each class.

[4] Less than 0.1 percentage.

Tables 4 and 5 present examples of the effect of the bill on various types of hypothetical taxpayers. Table 4 shows that for married couples with two dependents and with typical itemized deductions, the bill affects only those with adjusted gross incomes above $46,494. The corresponding levels for other types of taxpayers are considerably above average income levels. Table 5 shows the tax change, relative to present law, caused by the bill for five different types of families with typical itemized deductions. These changes do not become substantial until taxpayers' incomes reach very high levels.

TABLE 4.—ADJUSTED GROSS INCOME LEVELS ABOVE WHICH THE BILL INCREASES TAX FOR 1983 AND THEREAFTER

Filing status	Non-itemizer	Itemizer [1]
Unmarried individual, no dependents	$29,800	$35,714
Joint return, no dependents	37,200	43,896
Joint return, two dependents	39,200	46,494

[1] Itemized deductions assumed equal to 23 percent of adjusted gross income.

TABLE 5.—EXAMPLES OF FEDERAL INDIVIDUAL INCOME TAX LIABILITY, BY FILING STATUS, FOR 1984, UNDER PRESENT LAW AND UNDER THE BILL [1]

Filing status	Single			Joint			Joint			Joint Two-earner [2]			Joint Two-earner [2]		
Dependents	None			None			Two			None			Two		
Income level	Present law	Bill	Change	Present law	Bill	Change	Present law	Bill	Change	Present law	Bill	Change	Present law	Bill	Change
$5,000	$193	$193	0	0	0	0	−$500	−$500	0	0	0	0	−$500	−$500	0
$10,000	915	915	0	$539	$539	0	291	291	0	$504	$504	0	261	261	0
$15,000	1,572	1,572	0	1,253	1,253	0	952	952	0	1,193	1,193	0	900	900	0
$20,000	2,392	2,392	0	1,885	1,885	0	1,549	1,549	0	1,795	1,795	0	1,469	1,469	0
$25,000	3,348	3,348	0	2,596	2,596	0	2,218	2,218	0	2,466	2,466	0	2,106	2,106	0
$30,000	4,385	4,385	0	3,443	3,443	0	3,003	3,003	0	3,278	3,278	0	2,838	2,838	0
$35,000	5,540	5,540	0	4,403	4,403	0	3,903	3,903	0	4,184	4,184	0	3,684	3,684	0
$40,000	6,827	6,959	$132	5,434	5,434	0	4,874	4,874	0	5,154	5,154	0	4,615	4,615	0
$45,000	8,210	8,496	286	6,555	6,589	$34	5,952	5,952	0	6,197	6,197	0	5,637	5,637	0
$50,000	9,673	10,113	440	7,825	8,013	188	7,165	7,273	$108	7,413	7,551	$138	6,753	6,811	$58
$55,000	11,222	11,838	616	9,096	9,438	342	8,436	8,698	262	8,642	8,929	287	7,982	8,189	207
$65,000	14,456	15,457	1,001	11,919	12,569	650	11,159	11,729	570	11,302	11,887	585	10,542	11,047	505
$75,000	17,915	19,188	1,273	14,845	15,803	958	14,085	14,963	878	14,133	15,016	883	13,373	14,176	803
$85,000	21,611	23,038	1,427	18,045	19,311	1,266	17,205	18,391	1,186	17,153	18,334	1,181	16,313	17,414	1,101
$95,000	25,307	26,888	1,581	21,279	22,853	1,574	20,439	21,933	1,494	20,282	21,761	1,479	19,442	20,841	1,399
$100,000	27,155	28,813	1,658	22,896	24,624	1,728	22,056	23,704	1,648	21,846	23,474	1,628	21,006	22,554	1,548
$200,000	65,585	67,313	1,728	59,170	62,836	3,666	58,190	61,836	3,646	57,700	61,336	3,636	56,720	60,336	3,616
$300,000	104,085	105,813	1,728	97,600	101,336	3,736	96,600	100,336	3,736	96,100	99,836	3,736	95,100	98,836	3,736
$500,000	181,085	182,813	1,728	174,600	178,336	3,736	173,600	177,336	3,736	173,100	176,836	3,736	172,100	175,836	3,736
$1,000,000	373,585	375,313	1,728	367,100	370,836	3,736	366,100	369,836	3,736	365,600	369,336	3,736	364,600	368,336	3,736

[1] Assumes itemized deductions are 23 percent of income. Computed without reference to the tax tables.
[2] Assumes that 25 percent of combined income is earned by lesser-earning spouse.

Explanation of Provisions

Modified rate schedules

The bill provides new rate schedules for 1983 and 1984, which incorporate a limit of approximately $700 on the maximum 1984 reduction (and an approximate $350 limit for 1983) in individual income tax liability resulting from the last stage of the ERTA rate cuts. The actual limits for 1984 are $720 for married couples filing joint returns, $673 for unmarried heads of households, and $637 for other unmarried individuals. The limits for 1983 are about half of the corresponding 1984 figures.

Table 6 illustrates, for joint returns, how the 1984 rate schedule provided in the bill was constructed and the effects of the modifications on tax liability at different taxable income levels. The first column of Table 6 shows marginal tax rates under present law. The second column shows the rate schedule which would be appropriate if the July 1983 withholding reduction were repealed; these rates are 14.5 percent below the pre-ERTA rates, since, as explained above, withholding was approximately this percentage below the prior law level after the July 1982 reduction. The third column of Table 6 shows the rate schedule under the bill. This was constructed by comparing tax liability under present law and the 14.5 percent reduction (the fourth and fifth columns, respectively), and by using present law rates until the difference between these two schedules was approximately $700. For income levels above this point, taxable income of $35,200, the bill uses the rates which would be used under the 14.5-percent reduction. The column furthest to the right shows the exact amount of the tax reduction produced by the last stage of the rate cut that is allowed under the bill. For joint returns with taxable incomes above $35,200, the bill allows in 1984 a $720 tax reduction relative to the rate schedule which would be appropriate if the July 1983 withholding reduction were repealed.

TABLE 6.—SCHEDULE OF MARGINAL TAX RATES UNDER PRESENT LAW, UNDER A 14.5 PERCENT RATE CUT AND UNDER THE BILL, FOR 1984

[Joint Returns]

Taxable income bracket	Tax rate (percent)			Tax liability at beginning of bracket			
	Present law	14.5 percent rate cut [1]	The bill	Present law	14.5 percent rate cut [1]	The bill	
						Amount	Reduction [2]
$0 to $3,400	0	0	0	0	0	0	0
$3,400 to $5,500	11	12	11	0	0	0	0
$5,500 to $7,600	12	14	12	$231	$252	$232	$20
$7,600 to $11,900	14	15	14	483	546	483	63
$11,900 to $16,000	16	18	16	1,085	1,191	1,085	106
$16,000 to $20,200	18	21	18	1,741	1,929	1,741	188
$20,200 to $24,600	22	24	22	2,497	2,811	2,497	314
$24,600 to $29,900	25	27	25	3,465	3,867	3,465	402
$29,900 to $35,200	28	32	28	4,790	5,298	4,790	508
$35,200 to $45,800	33	37	37	6,274	6,994	6,274	720
$45,800 to $60,000	38	42	42	9,772	10,916	10,196	720
$60,000 to $85,600	42	46	46	15,168	16,880	16,160	720
$85,600 to $109,400	45	50	50	25,920	28,656	27,936	720
$109,400 to $162,400	49	50	50	36,630	40,556	39,836	720
$162,400 and over	50	50	50	62,600	67,056	66,336	720

[1] See explanation in text.
[2] Tax reduction relative to 14.5 percent.

The 1984 rate schedules for other filing statuses are constructed in a similar way, by switching at an equivalent marginal rate to the rates applicable under a 14.5 percent rate schedule. Thus, a $673 limitation applies for unmarried heads of households, and a $637 limitation applies for other unmarried individuals; these individuals affect tax returns with taxable incomes above $30,000 and $28,000, respectively.

The 1983 rate schedules are constructed by substituting in the present law rate schedules for that year the new 1984 marginal rates for the corresponding income brackets and retaining the present law schedules for the lower income brackets. For 1983, the bill limits the tax reduction allowed relative to the 14.5 percent rate schedule to about half the corresponding 1984 figure.

Withholding

The bill provides that the Secretary is to take into account the modifications in tax rate schedules made by the bill in implementing income tax withholding.

Estimated tax penalty relief

The bill specifies that no penalty for underpayment of estimated income tax will be imposed with respect to an underpayment for a taxable year beginning during 1983 to the extent that the underpayment results from the changes in tax rate schedules made by the bill.

Reduction of Federal deficits

The bill includes a preamble expresssing the sense of the Congress that in light of the threat posed to economic recovery by projected Federal deficits, the revenue gaines as a result of the bill should be applied to reduce Federal deficits and should count towards the attainment of any deficit reduction targets set by the budget committees.

Effective Dates

In general, the amendments made by the bill apply to taxable years beginning after December 31, 1982. The provisions of the bill relating to withholding applies to remuneration paid after June 30, 1983.

III. EFFECT OF THE BILL ON THE BUDGET AND VOTE OF THE COMMITTEE IN REPORTING THE BILL

Budget Effects

In compliance with clause 7 of Rule XIII of the Rules of the House of Representatives, the following statement is made about the effect on the budget of this bill, H.R. 1183. The bill is estimated to increase fiscal year budget receipts by $949 million in 1983, $6,200 million in 1984, $7,127 million in 1985, $7,629 million in 1986, $8,201 million in 1987, and $8,785 million in 1988.

The Treasury Department estimates that the bill will increase fiscal year budget receipts by $0.8 billion in 1983, $5.3 billion in 1984, $6.3 billion in 1985, $7.1 billion in 1986, $8.2 billion in 1987, and $9.6 billion in 1988.

Vote of the Committee

In compliance with clause 2(l)(2)(B) of Rule XI of the Rules of the House of Representatives, the following statement is made about the vote of the committee on the motion to report the bill, as amended. The bill, H.R. 1183 as amended, was ordered favorably reported by a rollcall vote of 18 ayes and 15 noes.

IV. OTHER MATTERS TO BE DISCUSSED UNDER HOUSE RULES

In compliance with clause 3(l)(3) and 2(l)(4) of Rule XI of the Rules of the House of Representatives, the following statements are made with respect to the committee action on H.R. 1183, as amended.

Oversight Findings

With respect to subdivision (A) of clause 2(l)(3) (relating to oversight findings), the committee advises that it held a public hearing on June 14, 1983, to receive testimony from the Secretary of the Treasury concerning the proposal limitation in the third year rate cut and effect of the proposal on the Federal budget deficit for fiscal years 1983–1988. As a result of the need to reduce the projected budget deficit, the committee concluded that it is appropriate to enact the provisions contained in the bill. The bill expresses the sense of the Congress that the revenues gained from the tax rate limitation should be applied to reducing projected Federal deficits.

New Budget Authority and Tax Expenditures

With respect to subdivision (B) of clause 2(l)(3), after consultation with the Director of the Congressional Budget Office, the committee states that the changes made to existing law by this bill involve no new budget authority or new or increased tax expenditures.

Consultation with Congressional Budget Office

With respect to subdivision (C) of clause 2(l)(3), the committee advises that the Director of the Congressional Budget Office has examined the committee's budget estimates (as indicated in part III of this report) and submitted the following statement:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, D.C., June 20, 1983.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means, U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: In accordance with Section 403 of the Budget Act, the Congressional Budget Office has examined H.R. 1183, the Tax Rate Equity Act of 1983, as reported by the Committee on Ways and Means. This bill limits to approximately $700 the maximum reduction in individual income tax resulting from the final stage of the Economic Recovery Tax Act of 1981 rate reductions. The bill limits the reduction by modifying the marginal tax rate schedules for years beginning in or after 1983. The modifica-

tions leave intact present law tax rates for incomes below the level at which the limit applies.

The bill does not provide for any new or increased budget authority or tax expenditure.

The Congressional Budget Office has reviewed and concurs with the estimates supplied by the staff of the Joint Committee on Taxation. The bill will increase fiscal year budget receipts by $949 million in 1983, $6,200 million in 1984, $7,127 million in 1985, $7,629 million in 1986, $8,201 million in 1987 and $8,785 million in 1988.

Sincerely,

JAMES BLUM
(For Alice M. Rivlin, Director).

Inflationary Impact

In compliance with clause 2(l)(4), the committee states that the enactment of this bill is expected to have an overall beneficial effect on prices and costs in the operation of the national economy, as the projected budget deficit is expected to be reduced by the amount of the estimated revenue pickup (see part III).

V. CHANGES IN EXISTING LAW MADE BY THE BILL AS REPORTED

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

INTERNAL REVENUE CODE OF 1954

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Subtitle A—Income Taxes

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CHAPTER 1—NORMAL TAXES AND SURTAXES

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Subchapter A—Determination of Tax Liability

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PART I—TAX ON INDIVIDUALS

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SECTION 1. TAX IMPOSED.

(a) MARRIED INDIVIDUALS FILING JOINT RETURNS AND SURVIVING SPOUSES.—There is hereby imposed on the taxable income of every married individual (as defined in section 143) who makes a single return jointly with his spouse under section 6013, and every surviving spouse (as defined in section 2(a)), a tax determined in accordance with the following tables:

(1) FOR TAXABLE YEARS BEGINNING IN 1982.—

If taxable income is:	The tax is:
Not over $3,400	No tax.
Over $3,400 but not over $5,500	12% of the excess over $3,400.
Over $5,500 but not over $7,600	$252, plus 14% of the excess over $5,500.
Over $7,600 but not over $11,900	$546, plus 16% of the excess over $7,600.
Over $11,900 but not over $16,000	$1,234, plus 19% of the excess over $11,900.
Over $16,000 but not over $20,200	$2,013, plus 22% of the excess over $16,000.
Over $20,200 but not over $24,600	$2,937, plus 25% of the excess over $20,200.

If taxable income is:	The tax is:
Over $24,600 but not over $29,900	$4,037, plus 29% of the excess over $24,600.
Over $29,900 but not over $35,200	$5,574, plus 33% of the excess over $29,900.
Over $35,200 but not over $45,800	$7,323, plus 39% of the excess over $35,200.
Over $45,800 but not over $60,000	$11,457, plus 44% of the excess over $45,800.
Over $60,000 but not over $85,600	$17,705, plus 49% of the excess over $60,000.
Over $85,600	$30,249, plus 50% of the excess over $85,600.

[(2) FOR TAXABLE YEARS BEGINNING IN 1983.—

If taxable income is:	The tax is:
Not over $3,400	No tax.
Over $3,400 but not over $5,500	11% of the excess over $3,400.
Over $5,500 but not over $7,600	$231, plus 13% of the excess over $5,500.
Over $7,600 but not over $11,900	$504, plus 15% of the excess over $7,600.
Over $11,900 but not over $16,000	$1,149, plus 17% of the excess over $11,900.
Over $16,000 but not over $20,200	$1,846, plus 19% of the excess over $16,000.
Over $20,200 but not over $24,600	$2,644, plus 23% of the excess over $20,200.
Over $24,600 but not over $29,900	$3,656, plus 26% of the excess over $24,600.
Over $29,900 but not over $35,200	$5,034, plus 30% of the excess over $29,900.
Over $35,200 but not over $45,800	$6,624, plus 35% of the excess over $35,200.
Over $45,800 but not over $60,000	$10,334, plus 40% of the excess over $45,800.
Over $60,000 but not over $85,600	$16,014, plus 44% of the excess over $60,000.
Over $85,600 but not over $109,400	$27,278, plus 48% of the excess over $85,600.
Over $109,400	$38,702, plus 50% of the excess over $109,400.

[(3) FOR TAXABLE YEARS BEGINNING AFTER 1983.—

If taxable income is:	The tax is:
Not over $3,400	No tax.
Over $3,400 but not over $5,500	11% of the excess over $3,400.
Over $5,500 but not over $7,600	$231, plus 12% of the excess over $5,500.
Over $7,600 but not over $11,900	$483, plus 14% of the excess over $7,600.
Over $11,900 but not over $16,000	$1,085, plus 16% of the excess over $11,900.
Over $16,000 but not over $20,200	$1,741, plus 18% of the excess over $16,000.
Over $20,200 but not over $24,600	$2,497, plus 22% of the excess over $20,200.
Over $24,600 but not over $29,900	$3,465, plus 25% of the excess over $24,600.
Over $29,900 but not over $35,200	$4,790, plus 28% of the excess over $29,900.
Over $35,200 but not over $45,800	$6,274, plus 33% of the excess over $35,200.
Over $45,800 but not over $60,000	$9,772, plus 38% of the excess over $45,800.

If taxable income is:	The tax is:
Over $60,000 but not over $85,600	$15,168, plus 42% of the excess over $60,000.
Over $85,600 but not over $109,400	$25,920, plus 45% of the excess over $85,600.
Over $109,400 but not over $162,400	$36,630, plus 49% of the excess over $109,400.
Over $162,400	$62,600, plus 50% of the excess over $162,400.

(2) FOR TAXABLE YEARS BEGINNING IN 1983.—

If taxable income is:	*The tax is:*
Not over $3,400	*No tax.*
Over $3,400 but not over $5,500	*11% of excess over $3,400.*
Over $5,500 but not over $7,600	*$231, plus 13% of excess over $5,500.*
Over $7,600 but not over $11,900	*$504, plus 15% of excess over $7,600.*
Over $11,900 but not over $16,000	*$1,149, plus 17% of excess over $11,900.*
Over $16,000 but not over $20,200	*$1,846, plus 19% of excess over $16,000.*
Over $20,200 but not over $24,600	*$2,644, plus 23% of excess over $20,200.*
Over $24,600 but not over $29,900	*$3,656, plus 26% of excess over $24,600.*
Over $29,900 but not over $35,200	*$5,034, plus 30% of excess over $29,900.*
Over $35,200 but not over $45,800	*$6,624, plus 37% of excess over $35,200.*
Over $45,800 but not over $60,000	*$10,546, plus 42% of excess over $45,800.*
Over $60,000 but not over $85,600	*$16,510, plus 46% of excess over $60,000.*
Over $85,600	*$28,286, plus 50% of excess over $85,600.*

(3) FOR TAXABLE YEARS BEGINNING AFTER 1983.—

If taxable income is:	*The tax is:*
Not over $3,400	*No tax.*
Over $3,400 but not over $5,500	*11% of excess over $3,400.*
Over $5,500 but not over $7,600	*$231, plus 12% of excess over $5,500.*
Over $7,600 but not over $11,900	*$483, plus 14% of excess over $7,600.*
Over $11,900 but not over $16,000	*$1,085, plus 16% of excess over $11,900.*
Over $16,000 but not over $20,200	*$1,741, plus 18% of excess over $16,000.*
Over $20,200 but not over $24,600	*$2,497, plus 22% of excess over $20,200.*
Over $24,600 but not over $29,900	*$3,465, plus 25% of excess over $24,600.*
Over $29,900 but not over $35,200	*$4,790, plus 28% of excess over $29,900.*
Over $35,200 but not over $45,800	*$6,274, plus 37% of excess over $35,200.*
Over $45,800 but not over $60,000	*$10,196, plus 42% of excess over $45,800.*
Over $60,000 but not over $85,600	*$16,160, plus 46% of excess over $60,000.*
Over $85,600	*$27,936, plus 50% of excess over $85,600.*

(b) HEADS OF HOUSEHOLDS.—There is hereby imposed on the taxable income of every individual who is the head of a household (as defined in section 2(b)) a tax determined in accordance with the following tables:

(1) FOR TAXABLE YEARS BEGINNING IN 1982.—

If taxable income is:	The tax is:
Not over $2,300	No tax.
Over $2,300 but not over $4,400	12% of the excess over $2,300.
Over $4,400 but not over $6,500	$252, plus 14% of the excess over $4,400.
Over $6,500 but not over $8,700	$546, plus 16% of the excess over $6,500.
Over $8,700 but not over $11,800	$898, plus 20% of the excess over $8,700.
Over $11,800 but not over $15,000	$1,518, plus 22% of the excess over $11,800.

If taxable income is:	The tax is:
Over $15,000 but not over $18,200	$2,222, plus 23% of the excess over $15,000.
Over $18,200 but not over $23,500	$2,958, plus 28% of the excess over $18,200.
Over $23,500 but not over $28,800	$4,442, plus 32% of the excess over $23,500.
Over $28,800 but not over $34,100	$6,138, plus 38% of the excess over $28,800.
Over $34,100 but not over $44,700	$8,152, plus 41% of the excess over $34,100.
Over $44,700 but not over $60,600	$12,498, plus 49% of the excess over $44,700.
Over $60,600	$20,289, plus 50% of the excess over $60,600.

[(2) FOR TAXABLE YEARS BEGINNING IN 1983.—

If taxable income is:	The tax is:
Not over $2,300	No tax.
Over $2,300 but not over $4,400	11% of the excess over $2,300
Over $4,400 but not over $6,500	$231, plus 13% of the excess over $4,400.
Over $6,500 but not over $8,700	$504, plus 15% of the excess over $6,500.
Over $8,700 but not over $11,800	$834, plus 18% of the excess over $8,700.
Over $11,800 but not over $15,000	$1,392, plus 19% of the excess over $11,800.
Over $15,000 but not over $18,200	$2,000, plus 21% of the excess over $15,000.
Over $18,200 but not over $23,500	$2,672, plus 25% of the excess over $18,200.
Over $23,500 but not over $28,800	$3,997, plus 29% of the excess over $23,500.
Over $28,800 but not over $34,100	$5,534, plus 34% of the excess over $28,800.
Over $34,100 but not over $44,700	$7,336, plus 37% of the excess over $34,100.
Over $44,700 but not over $60,600	$11,258, plus 44% of the excess over $44,700.
Over $60,600, but not over $81,800	$18,254, plus 48% of the excess over $60,600.
Over $81,800	$28,430, plus 50% of the excess over $81,800.

[(3) FOR TAXABLE YEARS BEGINNING AFTER 1983.—

If taxable income is:	The tax is:
Not over $2,300	No tax.
Over $2,300 but not over $4,400	11% of the excess over $2,300.
Over $4,400 but not over $6,500	$231, plus 12% of the excess over $4,400.
Over $6,500 but not over $8,700	$483, plus 14% of the excess over $6,500.
Over $8,700 but not over $11,800	$791, plus 17% of the excess over $8,700.
Over $11,800 but not over $15,000	$1,318, plus 18% of the excess over $11,800.
Over $15,000 but not over $18,200	$1,894, plus 20% of the excess over $15,000.
Over $18,200 but not over $23,500	$2,534, plus 24% of the excess over $18,200.
Over $23,500 but not over $28,800	$3,806, plus 28% of the excess over $23,500.
Over $28,800 but not over $34,100	$5,290, plus 32% of the excess over $28,800.

If taxable income is:	The tax is:
Over $34,100 but not over $44,700	$6,986, plus 35% of the excess over $34,100.
Over $44,700 but not over $60,600	$10,696, plus 42% of the excess over $44,700.
Over $60,600 but not over $81,800	$17,374, plus 45% of the excess over $60,600.
Over $81,800 but not over $108,300	$26,914, plus 48% of the excess over $81,800.
Over $108,300	$39,634, plus 50% of the excess over $108,300.

(2) FOR TAXABLE YEARS BEGINNING IN 1983.—

If taxable income is:	*The tax is:*
Not over $2,300	*No tax.*
Over $2,300 but not over $4,400	*11% of excess over $2,300.*
Over $4,400 but not over $6,500	*$231, plus 13% of excess over $4,400.*
Over $6,500 but not over $8,700	*$504, plus 15% of excess over $6,500.*
Over $8,700 but not over $11,800	*$834 , plus 18% of excess over $8,700.*
Over $11,800 but not over $15,000	*$1,392, plus 19% of excess over $11,800.*
Over $15,000 but not over $18,200	*$2,000, plus 21% of excess over $15,000*
Over $18,200 but not over $23,500	*$2,672, plus 25% of excess over $18,200.*
Over $23,500 but not over $28,800	*$3,997, plus 29% of excess over $23,500.*
Over $28,800 but not over $30,000	*$5,534, plus 34% of excess over $28,800.*
Over $30,000 but not over $34,100	*$5,942, plus 36% of excess over $30,000.*
Over $34,100 but not over $44,700	*$7,418, plus 39% of excess over $34,100.*
Over $44,700 but not over $60,000	*$11,552 , plus 46% of excess over $44,700.*
Over $60,600	*$18,866 , plus 50% of excess over $60,600.*

(3) FOR TAXABLE YEARS BEGINNING AFTER 1983.—

If taxable income is:	*The tax is:*
Not over $2,300	*No tax.*
Over $2,300 but not over $4,400	*11% of excess over $2,300.*
Over $4,400 but not over $6,500	*$231, plus 12% of excess over $4,400.*
Over $6,500 but not over $8,700	*$483, plus 14% of excess over $6,500.*
Over $8,700 but not over $11,800	*$791, plus 17% of excess over $8,700.*
Over $11,800 but not over $15,000	*$1,318, plus 18% of excess over $11,800.*
Over $15,000 but not over $18,200	*$1,894, plus 20% of excess over $15,000.*
Over $18,200 but not over $23,500	*$2,534, plus 24% of excess over $18,200.*
Over $23,500 but not over $28,800	*$3,806, plus 28% of excess over $23,500.*
Over $28,800 but not over $30,000	*$5,290, plus 32% of excess over $28,800.*
Over $30,000 but not over $34,100	*$5,674, plus 36% of excess over $30,000.*
Over $34,100 but not over $44,700	*$7,150, plus 39% of excess over $34,100.*
Over $44,700 but not over $60,600	*$11,284, plus 46% of excess over $44,700*
Over $60,600	*$19,598 plus 50% of excess over $60,600.*

(c) UNMARRIED INDIVIDUALS (OTHER THAN SURVIVING SPOUSES AND HEADS OF HOUSEHOLDS).—There is hereby imposed on the taxable income of every individual (other than a surviving spouse as defined in section 2(a) or the head of a household as defined in section 2(b)) who is not a married individual (as defined in section 143) a tax determined in accordance with the following tables:

(1) FOR TAXABLE YEARS BEGINNING IN 1982.—

If taxable income is:	The tax is:
Not over $2,300	No tax.
Over $2,300 but not over $3,400	12% of the excess over $2,300.
Over $3,400 but not over $4,400	$132, plus 14% of the excess over $3,400.
Over $4,400 but not over $6,500	$272, plus 16% of the excess over $4,400.

If taxable income is:	The tax is:
Over $6,500 but not over $8,500	$608, plus 17% of the excess over $6,500.
Over $8,500 but not over $10,800	$948, plus 19% of the excess over $8,500.
Over $10,800 but not over $12,900	$1,385, plus 22% of the excess over $10,800.
Over $12,900 but not over $15,000	$1,847, plus 23% of the excess over $12,900.
Over $15,000 but not over $18,200	$2,330, plus 27% of the excess over $15,000.
Over $18,200 but not over $23,500	$3,194, plus 31% of the excess over $18,200.
Over $23,500 but not over $28,800	$4,837, plus 35% of the excess over $23,500.
Over $28,800 but not over $34,100	$6,692, plus 40% of the excess over $28,800.
Over $34,100 but not over $41,500	$8,812, plus 44% of the excess over $34,100.
Over $41,500	$12,068, plus 50% of the excess over $41,500.

[(2) FOR TAXABLE YEARS BEGINNING IN 1983.—

If taxable income is:	The tax is:
Not over $2,300	No tax.
Over $2,300 but not over $3,400	11% of the excess over $2,300.
Over $3,400 but not over $4,400	$121, plus 13% of the excess over $3,400.
Over $4,400 but not over $8,500	$251, plus 15% of the excess over $4,400.
Over $8,500 but not over $10,800	$866, plus 17% of the excess over $8,500.
Over $10,800 but not over $12,900	$1,257, plus 19% of the excess over $10,800.
Over $12,900 but not over $15,000	$1,656, plus 21% of the excess over $12,900.
Over $15,000 but not over $18,200	$2,097, plus 24% of the excess over $15,000.
Over $18,200 but not over $23,500	$2,865, plus 28% of the excess over $18,200.
Over $23,500 but not over $28,800	$4,349, plus 32% of the excess over $23,500.
Over $28,800 but not over $34,100	$6,045, plus 36% of the excess over $28,800.
Over $34,100 but not over $41,500	$7,953, plus 40% of the excess over $34,100.
Over $41,500 but not over $55,300	$10,913, plus 45% of the excess over $41,500.
Over $55,300	$17,123, plus 50% of the excess over $55,300.

[(3) FOR TAXABLE YEARS BEGINNING AFTER 1983.—

If taxable income is:	The tax is:
Not over $2,300	No tax.
Over $2,300 but not over $3,400	11% of the excess over $2,300.
Over $3,400 but not over $4,400	$121, plus 12% of the excess over $3,400.
Over $4,400 but not over $6,500	$241, plus 14% of the excess over $4,400.
Over $6,500 but not over $8,500	$535, plus 15% of the excess over $6,500.
Over $8,500 but not over $10,800	$835, plus 16% of the excess over $8,500.
Over $10,800 but not over $12,900	$1,203, plus 18% of the excess over $10,800.

If taxable income is:	The tax is:
Over $12,900 but not over $15,000	$1,582, plus 20% of the excess over $12,900.
Over $15,000 but not over $18,200	$2,001, plus 23% of the excess over $15,000.
Over $18,200 but not over $23,500	$2,737, plus 26% of the excess over $18,200.
Over $23,500 but not over $28,800	$4,115, plus 30% of the excess over $23,500.
Over $28,800 but not over $34,100	$5,705, plus 34% of the excess over $28,800.
Over $34,100 but not over $41,500	$7,507, plus 38% of the excess over $34,100.
Over $41,500 but not over $55,300	$10,319, plus 42% of the excess over $41,500.
Over $55,300 but not over $81,800	$16,115, plus 48% of the excess over $55,300.
Over $81,800	$28,835, plus 50% of the excess over $81,800.

(2) FOR TAXABLE YEARS BEGINNING IN 1983.—

If taxable income is:	*The tax is:*
Not over $2,300	*No tax.*
Over $2,300 but not over $3,400	*11% of excess over $2,300.*
Over $3,400 but not over $4,400	*$121, plus 13% of excess over $3,400.*
Over $4,400 but not over $8,500	*$251, plus 15% of excess over $4,400.*
Over $8,500 but not over $10,800	*$866, plus 17% of excess over $8,500.*
Over $10,800 but not over $12,900	*$1,257, plus 19% of excess over $10,800.*
Over $12,900 but not over $15,000	*$1,656, plus 21% of excess over $12,900.*
Over $15,000 but not over $18,200	*$2,097, plus 24% of excess over $15,000.*
Over $18,200 but not over $23,500	*$2,865, plus 28% of excess over $18,200.*
Over $23,500 but not over $28,800	*$4,349, plus 32% of excess over $23,500.*
Over $28,800 but not over $34,100	*$6,045, plus 38% of excess over $28,800.*
Over $34,100 but not over $41,500	*$8,059, plus 42% of excess over $34,100.*
Over $41,500 but not over $55,300	*$11,167, plus 47% of excess over $41,500.*
Over $55,300	*$17,653, plus 50% of excess over $55,300.*

(3) FOR TAXABLE YEARS BEGINNING AFTER 1983.—

If taxable income is:	*The tax is:*
Not over $2,300	*No tax.*
Over $2,300 but not over $3,400	*11% of excess over $2,300.*
Over $3,400 but not over $4,400	*$121, plus 12% of excess over $3,400.*
Over $4,400 but not over $6,500	*$241, plus 14% of excess over $4,400.*
Over $6,500 but not over $8,500	*$535, plus 15% of excess over $6,500.*
Over $8,500 but not over $10,800	*$835, plus 16% of excess over $8,500.*
Over $10,800 but not over $12,900	*$1,203, plus 18% of excess over $10,800.*
Over $12,900 but not over $15,000	*$1,581, plus 20% of excess over $12,900.*
Over $15,000 but not over $18,200	*$2,001, plus 23% of excess over $15,000.*
Over $18,200 but not over $23,500	*$2,737, plus 26% of excess over $18,200.*
Over $23,500 but not over $28,800	*$4,115, plus 30% of excess over $23,500.*
Over $28,800 but not over $34,100	*$5,705, plus 38% of excess over $28,800.*
Over $34,100 but not over $41,500	*$7,719, plus 42% of excess over $34,100.*
Over $41,500 but not over $55,300	*$10,827, plus 47% of excess over $41,500.*
Over $55,300	*$17,313, plus 50% of excess over $55,300.*

(d) MARRIED INDIVIDUALS FILING SEPARATE RETURNS.—There is hereby imposed on the taxable income of every married individual (as defined in section 143) who does not make a single return jointly with his spouse under section 6013 a tax determined in accordance with the following tables:

(1) FOR TAXABLE YEARS BEGINNING IN 1982.—

If taxable income is:	The tax is:
Not over $1,700	No Tax.
Over $1,700 but not over $2,750	$12% of the excess over $1,700.
Over $2,750 but not over $3,800	$126, plus 14% of the excess over $2,750.
Over $3,800 but not over $5,950	$273, plus 16% of the excess over $3,800.
Over $5,950 but not over $8,000	$617, plus 19% of the excess over $5,950.
Over $8,000 but not over $10,100	$1,006.50, plus 22% of the excess over $8,000.
Over $10,100 but not over $12,300	$1,468.50, plus 25% of the excess over $10,100.
Over $12,300 but not over $14,950	$2,018.50, plus 29% of the excess over $12,300.
Over $14,950 but not over $17,600	$2,787, plus 33% of the excess over $14,950.
Over $17,600 but not over $22,900	$3,661.50, plus 39% of the excess over $17,600.
Over $22,900 but not over $30,000	$5,728.50, plus 44% of the excess over $22,900.
Over $30,000 but not over $42,800	$8,852.50, plus 49% of the excess over $30,000.
Over $42,800	$15,124.50, plus 50% of the excess over $42,800.

[(2) FOR TAXABLE YEARS BEGINNING IN 1983.—

If taxable income is:	The tax is:
Not over $1,700	No tax.
Over $1,700 but not over $2,750	11% of the excess over $1,700.
Over $2,750 but not over $3,800	$115.50, plus 13% of the excess over $2,750.
Over $3,800 but not over $5,950	$252, plus 15% of the excess over $3,800.
Over $5,950 but not over $8,000	$574.50, plus 17% of the excess over $5,950.
Over $8,000 but not over $10,100	$923, plus 19% of the excess over $8,000.
Over $10,100 but not over $12,300	$1,322, plus 23% of the excess over $10,100.
Over $12,300 but not over $14,950	$1,828, plus 26% of the excess over $12,300.
Over $14,950 but not over $17,600	$2,517, plus 30% of the excess over $14,950.
Over $17,600 but not over $22,900	$3,312, plus 35% of the excess over $17,600.
Over $22,900 but not over $30,000	$5,167, plus 40% of the excess over $22,900.
Over $30,000 but not over $42,800	$8,007, plus 44% of the excess over $30,000.
Over $42,800 but not over $54,700	$13,639, plus 48% of the excess over $42,800.
Over $54,700	$19,351, plus 50% of the excess over $54,700.

[(3) FOR TAXABLE YEARS BEGINNING AFTER 1983.—

If taxable income is:	The tax is:
Not over $1,700	No tax.
Over $1,700 but not over $2,750	$11% of the excess over $1,700.
Over $2,750 but not over $3,800	$115.50, plus 12% of the excess over $2,750.
Over $3,800 but not over $5,950	$241.50, plus 14% of the excess over $3,800.
Over $5,950 but not over $8,000	$542.50, plus 16% of the excess over $5,950.

If taxable income is:	The tax is:
Over $8,000 but not over $10,100	$870.50, plus 18% of the excess over $8,000.
Over $10,100 but not over $12,300	$1,248.50, plus 22% of the excess over $10,100.
Over $12,300 but not over $14,950	$1,732.50, plus 25% of the excess over $12,300.
Over $14,950 but not over $17,600	$2,395, plus 28% of the excess over $14,950.
Over $17,600 but not over $22,900	$3,137, plus 33% of the excess over $17,600.
Over $22,900 but not over $30,000	$4,886, plus 38% of the excess over $22,900.
Over $30,000 but not over $42,800	$7,584, plus 42% of the excess over $30,000.
Over $42,800 but not over $54,700	$12,960, plus 45% of the excess over $42,800.
Over $54,700 but not over $81,200	$18,315, plus 49% of the excess over $54,700.
Over $81,200	$31,300, plus 50% of the excess over $81,200.

(2) FOR TAXABLE YEARS BEGINNING IN 1983.—

If taxable income is:	*The tax is:*
Not over $1,700	*No tax.*
Over $1,700 but not over $2,750	*11% of excess over $1,700.*
Over $2,750 but not over $3,800	*$115.50, plus 13% of excess over $2,750.*
Over $3,800 but not over $5,950	*$252, plus 15% of excess over $3,800.*
Over $5,950 but not over $8,000	*$574.50, plus 17% of excess over $5,950.*
Over $8,000 but not over $10,100	*$923, plus 19% of excess over $8,000.*
Over $10,100 but not over $12,300	*$1,322, plus 23% of excess over $10,100.*
Over $12,300 but not over $14,950	*$1,828, plus 26% of excess over $12,300.*
Over $14,950 but not over $17,600	*$2,517, plus 30% of excess over $14,950.*
Over $17,600 but not over $22,900	*$3,312, plus 37% of excess over $17,600.*
Over $22,900 but not over $30,000	*$5,273, plus 42% of excess over $22,900.*
Over $30,000 but not over $42,800	*$8,255, plus 46% of excess over $30,000.*
Over $42,800	*$14,143, plus 50% of excess over $42,800.*

(3) FOR TAXABLE YEARS BEGINNING AFTER 1983.—

If taxable income is:	*The tax is:*
Not over $1,700	*No tax.*
Over $1,700 but not over $2,750	*11% of excess over $1,700.*
Over $2,750 but not over $3,800	*$115.50, plus 12% of excess over 2,750.*
Over $3,800 but not over $5,950	*$241.50, plus 14% of excess over $3,800.*
Over $5,950 but not over $8,000	*$542.50, plus 16% of excess over $5,950.*
Over $8,000 but not over $10,100	*$870.50, plus 18% of excess over $8,000.*
Over $10,100 but not over $12,300	*$1,248.50, plus 22% of excess over $10,100.*
Over $12,300 but not over $14,950	*$1,732.50, plus 25% of excess over $12,300.*
Over $14,950 but not over $17,600	*$2,395, plus 28% of excess over $14,950.*
Over $17,600 but not over $22,900	*$3,137, plus 37% of excess over $17,600.*
Over $22,900 but not over $30,000	*$5,098, plus 42% of excess over $22,900.*
Over $30,000 but not over $42,800	*$8,080, plus 46% of excess over $30,000.*
Over $42,800	*$13,968, plus 50% of excess over $42,800*

(e) ESTATES AND TRUSTS.—There is hereby imposed on the taxable income of every estate and trust taxable under this subsection a tax determined in accordance with the following tables:

(1) FOR TAXABLE YEARS BEGINNING IN 1982.—

If taxable income is:	The tax is:
Not over $1,050	12% of taxable income.
Over $1,050 but not over $2,100	$126, plus 14% of the excess over $1,050.
Over $2,100 but not over $4,250	$273, plus 16% of the excess over $2,100.
Over $4,250 but not over $6,300	$617, plus 19% of the excess over $4,250.
Over $6,300 but not over $8,400	$1,006.50, plus 22% of the excess over $6,300.
Over $8,400 but not over $10,600	$1,468.50, plus 25% of the excess over $8,400.
Over $10,600 but not over $13,250	$2,018.50, plus 29% of the excess over $10,600.
Over $13,250 but not over $15,900	$2,787, plus 33% of the excess over $13,250.
Over $15,900 but not over $21,200	$3,661.50, plus 39% of the excess over $15,900.
Over $21,200 but not over $28,300	$5,728.50, plus 44% of the excess over $21,200.
Over $28,300 but not over $41,100	$8,852.50, plus 49% of the excess over $28,300.
Over $41,100	$15,124.50, plus 50% of the excess over $41,100.

[(2) FOR TAXABLE YEARS BEGINNING IN 1983.—

If taxable income is:	The tax is:
Not over $1,050	11% of taxable income.
Over $1,050 but not over $2,100	$115.50, plus 13% of the excess over $1,050.
Over $2,100 but not over $4,250	$252, plus 15% of the excess over $2,100.
Over $4,250 but not over $6,300	$574.50, plus 17% of the excess over $4,250.
Over $6,300 but not over $8,400	$923, plus 19% of the excess over $6,300.
Over $8,400 but not over $10,600	$1,322, plus 23% of the excess over $8,400.
Over $10,600 but not over $13,250	$1,828, plus 26% of the excess over $10,600.
Over $13,250 but not over $15,900	$2,517, plus 30% of the excess over $13,250.
Over $15,900 but not over $21,200	$3,312, plus 35% of the excess over $15,900.
Over $21,200 but not over $28,300	$5,167, plus 40% of the excess over $21,200.
Over $28,300 but not over $41,100	$8,007, plus 44% of the excess over $28,300.
Over $41,100 but not over $53,000	$13,639, plus 48% of the excess over $41,100.
Over $53,000	$19,351, plus 50% of the excess over $53,000.

[(3) FOR TAXABLE YEARS BEGINNING AFTER 1983.—

If taxable income is:	The tax is:
Not over $1,050	11% of taxable income.
Over $1,050 but not over $2,100	$115.50, plus 12% of the excess over $1,050.
Over $2,100 but not over $4,250	$241.50, plus 14% of the excess over $2,100.
Over $4,250 but not over $6,300	$542.50, plus 16% of the excess over $4,250.
Over $6,300 but not over $8,400	$870.50, plus 18% of the excess over $6,300.
Over $8,400 but not over $10,600	$1,248.50, plus 22% of the excess over $8,400.

If taxable income is:	The tax is:
Over $10,600 but not over $13,250	$1,732.50, plus 25% of the excess over $10,600.
Over $13,250 but not over $15,900	$2,395, plus 28% of the excess over $13,250.
Over $15,900 but not over $21,200	$3,137, plus 33% of the excess over $15,900.
Over $21,200 but not over $28,300	$4,886, plus 38% of the excess over $21,200.
Over $28,300 but not over $41,100	$7,584, plus 42% of the excess over $28,300.
Over $41,100 but not over $53,000	$12,960, plus 45% of the excess over $41,100.
Over $53,000 but not over $79,500	$18,315, plus 49% of the excess over $53,000.
Over $79,500	$31,300, plus 50% of the excess over $79,500.

(2) FOR TAXABLE YEARS BEGINNING IN 1983.—

If taxable income is:	*The tax is:*
Not over $1,050	*11% of taxable income.*
Over $1,050 but not over $2,100	*$115.50, plus 13% of excess over $1,050.*
Over $2,100 but not over $4,250	*$252, plus 15% of excess over $2,100.*
Over $4,250 but not over $6,300	*$574.50, plus 17% of excess over $4,250.*
Over $6,300 but not over $8,400	*$923, plus 19% of excess over $6,300.*
Over $8,400 but not over $10,600	*$1,322, plus 23% of excess over $8,400.*
Over $10,600 but not over $13,250	*$1,828, plus 26% of excess over $10,600.*
Over $13,250 but not over $15,900	*$2,517, plus 30% of excess over $13,250.*
Over $15,900 but not over $21,200	*$3,312, plus 37% of excess over $15,900.*
Over $21,200 but not over $28,300	*$5,273, plus 42% of excess over $21,200.*
Over $28,300 but not over $41,100	*$8,255, plus 46% of excess over $28,300.*
Over $41,100	*$14,143, plus 50% of excess over $41,100.*

(3) FOR TAXABLE YEARS BEGINNING AFTER 1983.—

If taxable income is:	*The tax is:*
Not over $1,050	*11% of taxable income.*
Over $1,050 but not over $2,100	*$115.50, plus 12% of excess over $1,050.*
Over $2,100 but not over $4,250	*$241.50, plus 14% of excess over $2,100.*
Over $4,250 but not over $6,300	*$542.50, plus 16% of excess over $4,250.*
Over $6,300 but not over $8,400	*$870.50, plus 18% of excess over $6,300.*
Over $8,400 but not over $10,600	*$1,248.50, plus 22% of excess over $8,400.*
Over $10,600 but not over $13,250	*$1,732.50, plus 25% of excess over $10,600.*
Over $13,250 but not over $15,900	*$2,395, plus 28% of excess over $13,250.*
Over $15,900 but not over $21,200	*$3,137, plus 37% of excess over $15,900.*
Over $21,200 but not over $28,300	*$5,098, plus 42% of excess over $21,200.*
Over $28,300 but not over $41,100.	*$8,080, plus 46% of excess over $28,300.*
Over $41,100	*$13,968, plus 50% of excess over $41,100.*

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PART III—CHANGES IN RATES DURING A TAXABLE YEAR

Sec. 21. Effect of changes.

SEC. 21. EFFECT OF CHANGES.

(a) GENERAL RULE.—If any rate of imposed by this chapter changes, and if the taxable year includes the effective date of the chance (unless that date is the first day of the taxable year), then—

(1) tenative taxes shall be computed by applying the rate for the period before the effective date of the change, and the rate

for the period on and after such date, to the taxable income for the entire taxable year; and

(2) the tax for such taxable year shall be the sum of that proportion of each tenatative tax which the number of days in each period bears to the number of days in the entire taxable year.

(b) REPEAL OF TAX.—For purposes of subsection (a)—

(1) if a tax is repealed, the repeal shall be considered a change of rate; and

(2) the rate for the period after the repeal shall be zero.

(c) EFFECTIVE DATE OF CHANGE.—For purposes of subsections (a) and (b)—

(1) if the rate changes for taxable years "beginning after" or "ending after" a certain date, the following day shall be considered the effective date of the change; and

(2) if the rate changes for taxable years "beginning on or after" a certain date, that date shall be considered the effective date of the change.

(d) SECTION NOT TO APPLY TO SECTION 1 RATE CHANGES MADE BY ECONOMIC RECOVERY TAX ACT OF 1981 *OR TAX RATE EQUITY ACT OF 1983*.—This section shall not apply to any change in rates under section 1 attributable to the amendments made by section 101 of the Economic Recovery Tax Act of 1981, *section 3 of the Tax Rate Equity Act of 1983,* or subsection (f) of section 1 (relating to adjustments in tax tables so that inflation will not result in tax increases.

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Subtitle C—Employment Taxes and Collection of Income Tax at Source

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CHAPTER 24—COLLECTION OF INCOME TAX AT SOURCE

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Subchapter A—Withholding from Wages

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SEC. 3402. INCOME TAX COLLECTED AT SOURCE.

(a) REQUIREMENT OF WITHHOLDING—

(1) IN GENERAL.—Except as otherwise provided in this section, every employer making payment of wages shall deduct and withhold upon such wages a tax determined in accordance with tables or computational procedures prescribed by the Secretary. Any tables or procedures prescribed under this paragraph shall—

(A) apply with respect to the amount of wages paid during such periods as the Secretary may prescribe, and

(B) be in such form, and provide for such amounts to be deducted and withheld, as the Secretary determines to be most appropriate to carry out the purposes of this chapter and to reflect the provisions of chapter 1 applicable to such periods.

(2) AMOUNT OF WAGES.—For purposes of applying tables or procedures precribed under paragraph (1), the term "the amount of wages" means the amount by which the wages exceed the number of withholding exemptions claimed multiplied by the amount of one such exemption. The amount of each withholding exemption shall be equal to the amount of one personal exemption provided in section 151(b), prorated to the payroll period. The maximum number of withholding exemptions permitted shall be calculated in accordance with regulations prescribed by the Secretary under this section, taking into account any reduction in withholding to which an employee is entitled under this section.

(3) CHANGES MADE BY SECTION 104 OF THE ECONOMIC RECOVERY TAX ACT OF 1981—Notwithstanding the provisions of this subsection, the Secretary shall modify the tables and procedures under paragraph (1) to reflect—

(A) the amendments made by section 101(b) of the Economic Recovery Tax Act of 1981, and such modification shall take effect on October 1, 1981, as if such amendments made a 5-percent reduction effective on such date, and

(B) the amendments made by section 101(a) of such Act, and such modifications shall take effect—

(i) on July 1, 1982, as if the reductions in the rate of tax under section 1 (as amended by such section) were attributable to a 10-percent reduction effective on such date, and

(ii) on July 1, 1983, as if such reductions were attributable to a 10-percent reduction effective on such date.

Notwithstanding subparagraph (B), the Secretary shall take into account the amendments made by section 3 of the Tax Rate Equity Act of 1983.

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VI. DISSENTING VIEWS ON H.R. 1183

We oppose H.R. 1183 because it is bad economic and tax policy and because it is unjust.

It is bad economic policy largely because it threatens to raise taxes sharply and thus impede a burgeoning recovery. It is bad tax policy primarily because it would create permanent inequities in our voluntary federal income tax system which already faces credibility problems.

H.R. 1183 is unjust because it hurts the most the very groups that already shoulder disproprotionately heavy tax burdens: middle-income people, especially two-earner families; and small businesses, particularly family farms.

The bill also has been mislabeled. It supporters have described it as a $700 "cap" on the third-year stage of the individual tax rate reductions that were an integral part of the President's Economic Recovery Program. But H.R. 1183 differs markedly from that description. It would result in a *permanent* change in tax rate schedules, thus causing taxes to rise for many income categories not only next year but every year thereafter.

Moreover, it does not even have the effect of a $700 "cap." In 1984, the actual limitation it places on a joint return is $720: on a single return it is $637, and on a head-of-household return it is $673. The actual limitation for 1983 is $370 for a joint return, $297 for a single return, and $405 for a head-of-household return.

The Bill Jeopardizes Economic Recovery But Insures No Real Deficit Reductions

Perhaps the most troubling aspect of this simplistic proposal is that it jeopardizes the blossoming economic recovery. This could have an inronically perverse effect on low and middle-income taxpayers who have been particularly hurt by high inflation and high interest rates.

Proponents of the "cap" assert it will help to sustain the recovery by reducing deficits. That argument, however, is seriously flawed. Treasury Secretary Regan, in his appearance before the Committee on June 14, 1983, indicated that the effect of the "cap" may be to raise deficits as a result of its negative impact on the recovery. The raising of taxes will not insure deficit reductions because a free-spending Congress will find ways to spend any money it raises. Federal spending as a percentage of GNP increased from 18.0 percent in 1965 to 23.5 percent in 1982, while taxes increased from 17.7 percent of the GNP in 1965 to 20.3 percent in 1982. Supporters of the "cap" proposal gave lip service to the deficit reduction issue by adding a preamble to H.R. 1183 which has no legislative impact. But they refused to consider one amendment, and rejected another which we offered, to assure actual deficit reductions by making the cap contingent on real spending reductions as well.

The Proposal Produces Radical Inconsistencies Through Marginal Rate Changes

The "capping" of the third year is achieved in H.R. 1183 through a modification of marginal rates of certain income tax brackets. This approach produces bizarre marginal rate changes at relatively modest income levels. For example, at the $35,200 income level on the joint return schedule, the marginal rate will change from 28 percent to 37 percent, a whopping 9 point increase. At only one other place in the entire rate schedule does the marginal rate change by even 5 points, and in most cases, there is only a 2 or 3 point change. A comparable rate increase under the proposal occurs on the individual rate schedule at the $28,800 income level where the marginal rate would increase by 8 points, from 30 percent to 38 percent. We believe that such quantum jumps in marginal rates at these modest income levels are clearly bad tax policy which will adversely affect many taxpayers now and in the future.

H.R. 1183 Imposes Radical Inconsistencies on Certain Taxpayers and Retroactive Tax Increases on Others

Another effect of the "cap" under this bill is to impose a significant percentage change on those taxpayers with income between $50,000 and $200,000 but a relatively modest change or no change at all on those taxpayers below $50,000 and above $200,000. The chart set forth below highlights this disparity.

Income levels:	*Percent Tax Change*
0 to $30,000	0
$30,000 to $40,000	.2
$40,000 to $50,000	1.6
$50,000 to $75,000	4.9
$75,000 to $100,000	7.1
$100,000 to $200,000	7.2
$200,000 and over	2.5

What defense is there for a tax increase proposal that has such nonsensical variations in impact?

Those with over $200,000 taxable income already have received the full benefit of the third-year tax cut. Their marginal rates have been dropped from 70 percent to 50 percent, thanks to a provision that originated in 1981 with Democratic Members of the Ways and Means Committee.

A particularly unjust aspect of the "cap" proposal is that it can have the effect of retroactively increasing a taxpayers' liability for tax on income earned prior to enactment. This result will occur even if it is enacted prior to July 1, 1983. If the cap were enacted after July 1, 1983, many additional taxpayers would experience a retroactive impact. Such a result is inconsistent with the policy which the Congress has generally followed, in making tax law changes with adverse impact on a prospective basis only.

This Proposal Appears To Be a Precursor to Bids for Repeal or Delay of Indexing, Either of Which would Damage Low and Middle-Income Taxpayers

Proponents of the "cap" proposal argue that it only hurts high income taxpayers, an argument which the facts do not support. They have failed to disclose what logically would be their next target, the indexing provision of President Reagan's Economic Recovery Tax Act of 1981. Indexing is, we believe, to quote the *New York Times*, "one of the fairest pieces of tax law in many a year." It is essential to protect the working people of this country from further unlegislated real tax increases which rob them of their hard earned dollars.

The brutal effect which the repeal of indexing would have on low and middle-income taxpayers is clearly demonstrated when one realizes that repeal of indexing would cause a family of four, earning $10,000 in 1983 dollars, to pay 47.4 percent more in taxes in 1988. Moreover, of the $6.9 billion which would be raised from the repeal of indexing in 1985, approximately 77 percent, or $5.3 billion, would come from families earning under $50,000.

We all supported an amendment, to use revenue generated by the "cap" to accelerate the beginning date of indexing from January 1, 1985, to approximately March 1, 1984. This would have provided a real benefit to low and middle-income taxpayers, whom "cap" supporters apparently believe would derive some intangible benefit from raising the taxes of others. The amendment also offered an important opportunity for Members to declare their position on the fundamental issue of indexing. The vote speaks for itself: 11 Republicans for, 23 Democrats against.

In summary, we view this bill as a purely political exercise, and not a very shrewd one at that. It does nothing directly to help or hurt the poor or the rich. It is, very simply but blatantly, a substantial tax increase for everybody else.

We sincerely hope that the House will reject this legislation and that our Committee will turn its attention again to the development of sounder tax policy. One bright note in this otherwise dismal sequence of events was the statement of our Chairman opening the public hearing on H.R. 1183. He indicated clearly the need in the future for a balanced economic course that has support from both parties, and we take heart from that.

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